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Long-Term Care Planning In A Recessionary Environment

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Long-Term Care Trends

The Recession's Impact

- Medicare & Medicaid cutbacks
- Healthcare costs will continue to rise (LTC included)
- LTC legislation stalled (above the line deductions, tax credits, etc.)
- Nursing home closures (public / state funded)
- In-force rate increases on insurance policies
- Constriction in the marketplace (less carriers writing LTC Insurance)
- Diminished retirement savings to fund extended healthcare event
- Professional advisors beginning to focus on risk management (market, longevity and healthcare)
- Consumers feel that LTC Insurance is “too expensive”
- Consumers express lack of confidence in insurance carriers to pay future claims

Living a long life is a near certainty; planning for it is a necessity.

- **Increased longevity is making long-term care (LTC) a necessity for a growing number of Americans
Consider these facts:**
 - **Long-term care is ongoing care received by a person of any age who is unable to fully care for himself/herself safely**
 - **Among people turning 65 today, 69% will need some form of long-term care whether at home, in a residential care or skilled nursing facility¹**
 - **About 12 million Americans currently need long-term care²**
 - **10.2 million are cared for at home²**
 - **80% of Long-Term Care services are provided by family members or other unpaid caregivers³**
 - **Caregiving costs the average individual nearly \$660,000 over his/her lifetime⁴**
 - **21% of the American workforce are providing care for family members⁴**

1 Georgetown University, "National Spending for Long-Term Care," January 2007.

2 American Association of Homes and Services for the Aging, "Aging Services: The Facts" (last updated June 8, 2007), www.aasha.org, accessed July 2, 2007.

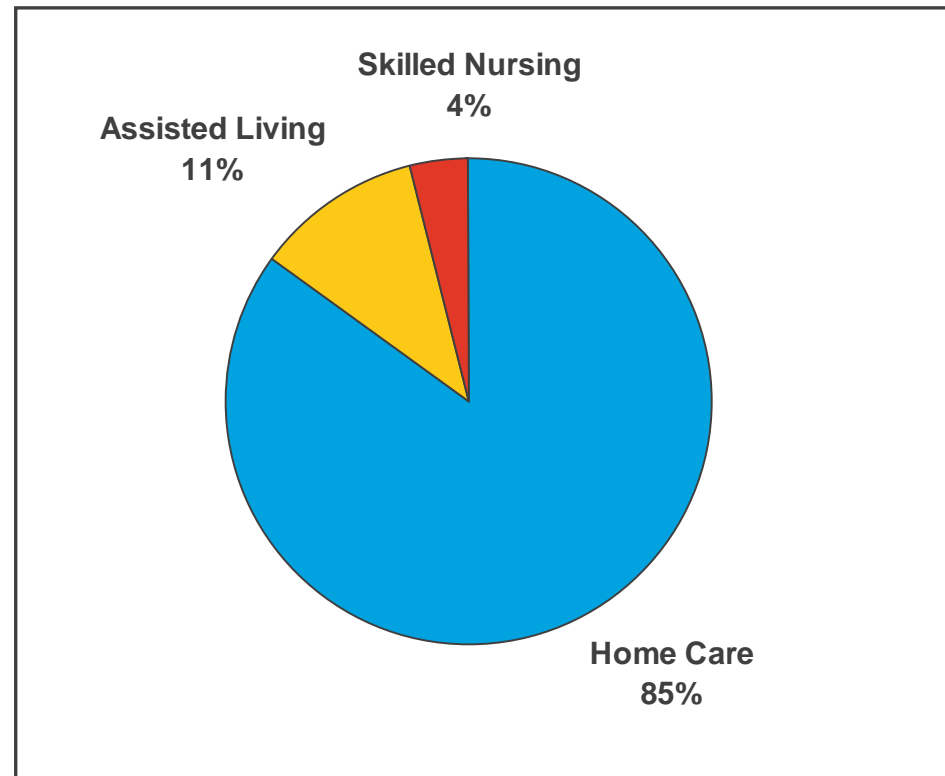
3 Georgetown University, "Family Caregivers Issue Brief", 2007.

4 MetLife Mature Market Institute, 2007.

Long-Term Care Planning

Becoming a Necessity for Most Americans

- Long-term care is ongoing care received by a person of any age who is unable to fully care for himself/herself safely
- There are various levels of long-term care including: home healthcare, assisted living, and skilled nursing
- Most long-term care services are **NOT COVERED** by Medicare, major medical, or disability insurance policies



Based on Genworth Claims Department Information, 2006.



Product Portfolio

Individual & Group Products

- John Hancock
- MetLife

*** 5% Association discounts offered to members and their families**

All Selected Insurers

- Rated A (Excellent) – AM Best
- Tax Qualified Products
- Leaders in the Marketplace

The Due Diligence Process

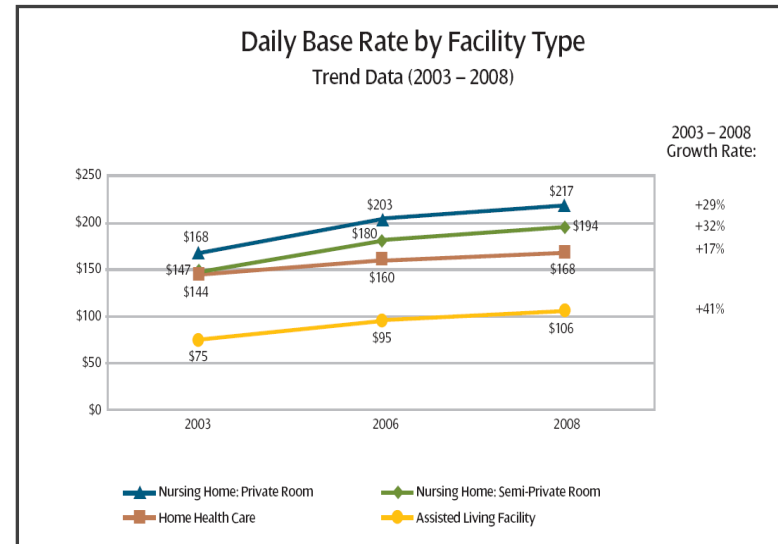
- Ratings/Financials
- Commitment to the Marketplace
- Product/Pricing structure
- Underwriting Philosophy
- Loss Ratios on Existing Business
- History of Rate Increases
- Experience (in-force business/claims paid)
- Reinsurance
- Offers Employer Group/Association Discounts
- Accelerated Payment Options (Paid-up at 65 and 10-pay)

The Financial Risk to a Retirement Portfolio

- Current cost of care in California = \$7,500/month

- Projected Cost:
 - Client at age 50 today = \$7,500/month
 - In 10 years = \$12,660/month
 - In 20 years = \$22,680/month
 - In 30 years = \$40,650/month
 - In 35 years = \$54,390/month

The potential cost for a 50 year-old today who receives five years of care beginning at age 85 = **\$3,263,400**

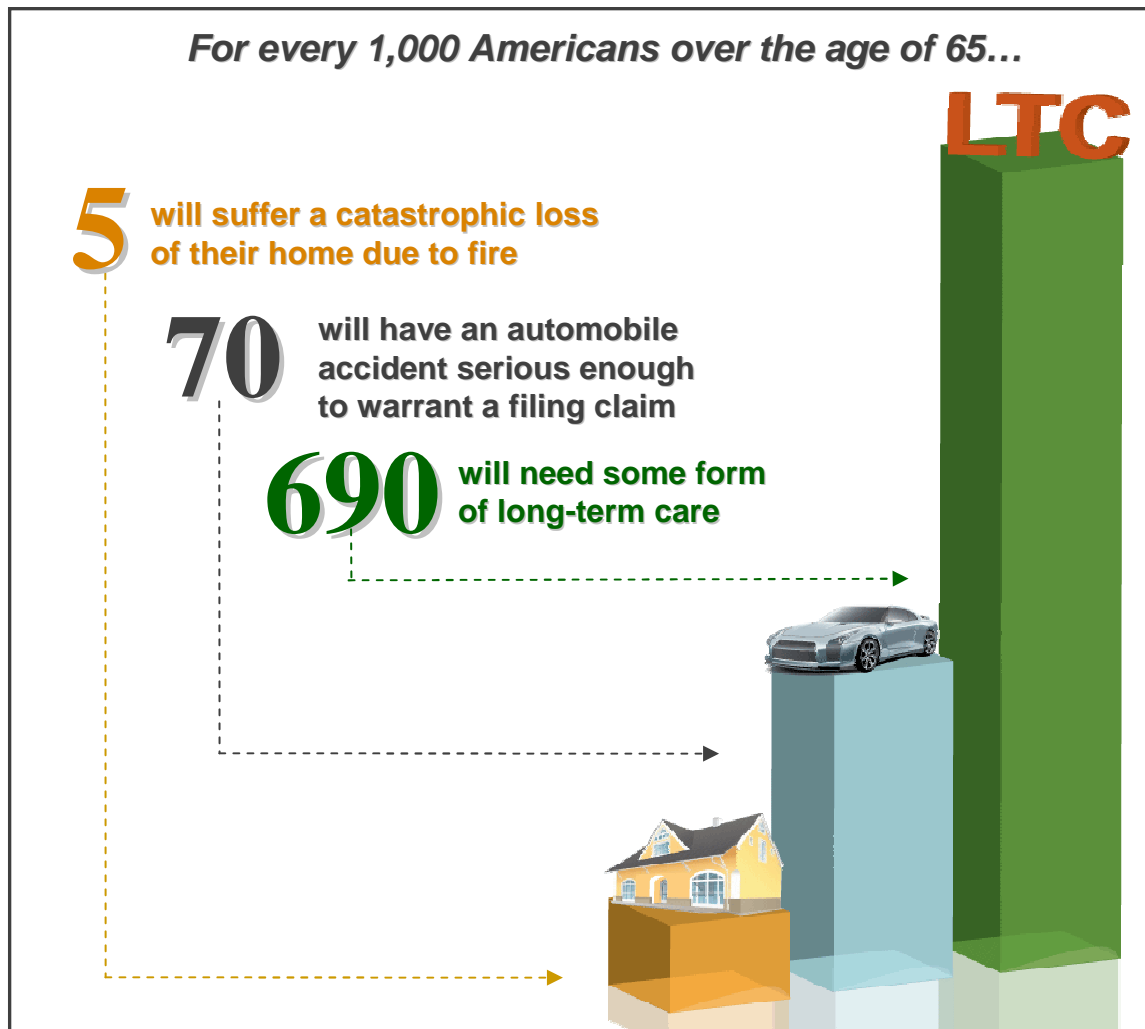


The figures above assume a 6% inflation rate on the cost of care

Source: 2008 Genworth Cost of Care Survey (Private Care).

Risk Management Techniques

- Avoidance
- Reduction
- Retention
- Transfer



Sources:

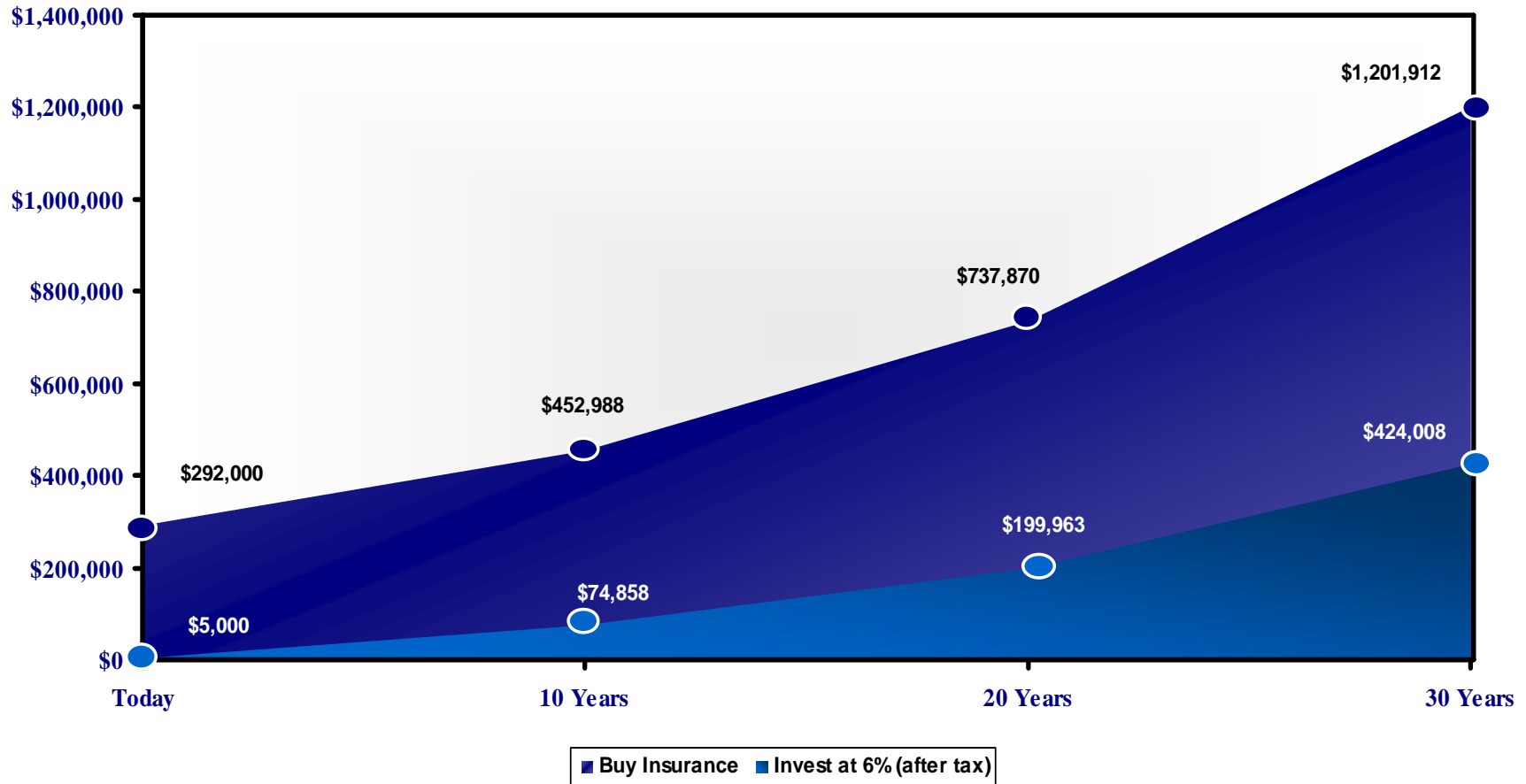
GAO, Long-Term Care Partnership Program: An Overview. GAO-05-1021R, 2006.

Georgetown University, "National Spending for Long-Term Care," January 2007.

Risk Management Strategies

Retain or Transfer?

Sample Scenario: graph depicts the outcome (over 30 years) of a \$5,000 annual investment in LTC Insurance vs. the same \$5,000 annual investment experiencing a 6% annual return, after-tax.





The Rule of 72

Long-Term Care Implications

- Cost of extended healthcare
- Inflation protection

| The Rule of 72 | | | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Interest Rate | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 7.2% | 8.0% | 9.0% | 10.0% |
| Years to Double | 24.0 | 18.0 | 14.4 | 12.0 | 10.3 | 10.0 | 9.0 | 8.0 | 7.2 |
| Years to Quadruple | 48.0 | 36.0 | 28.8 | 24.0 | 20.6 | 20.0 | 18.0 | 16.0 | 14.4 |

LTC Risk Assessment



5% Compound COLA
(policy is guaranteed to grow each year)

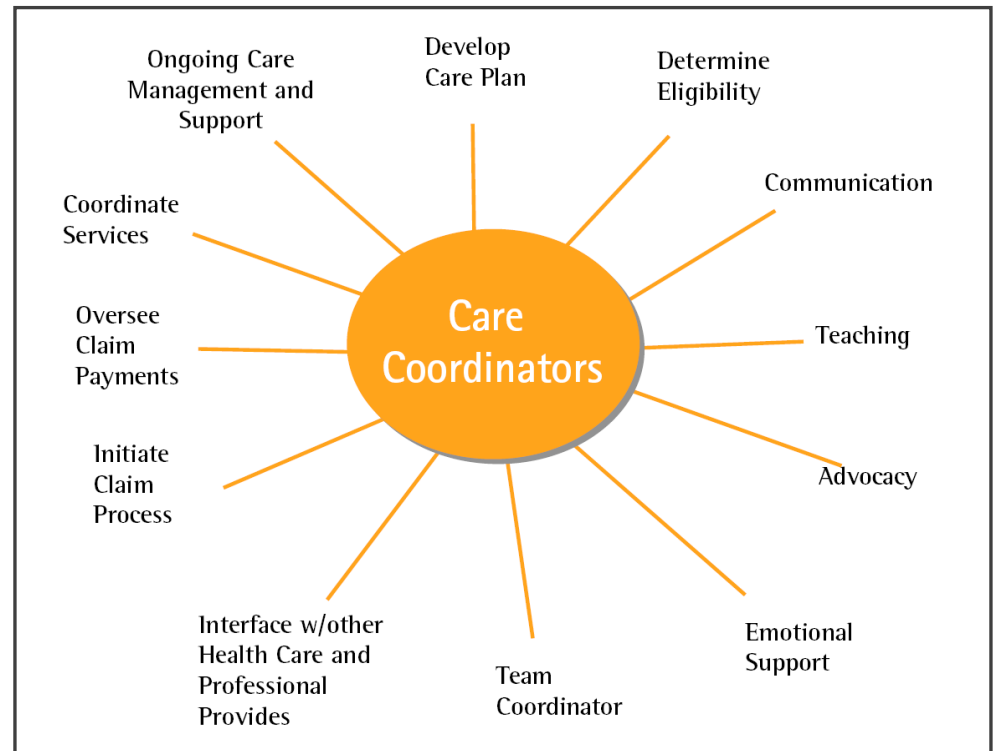
| | | | |
|---|--------------------|--------------------|--------------------|
| Client Name: Valued Client | | | |
| Planning Scenario | A | B | C |
| Your Current Age | 55 | 55 | 55 |
| Projected age when care begins | 80 | 85 | 90 |
| If you want an insurance company to pay: | | | |
| Up to this amount per day, if care begins today | \$150 | \$150 | \$150 |
| For no less than these covered days *1 | 1825 | 1825 | 1825 |
| (Which equals this minimum covered years) | 5.00 Years | 5.00 Years | 5.00 Years |
| LTC Expense Account available today *2 | \$273,750 | \$273,750 | \$273,750 |
| Inflation protection built into coverage | 5% Compound | 5% Compound | 5% Compound |
| Daily benefit, if care begins at projected age | \$508 | \$648 | \$827 |
| Future Expense Account available at projected age *3 | \$1,024,468 | \$1,307,510 | \$1,668,751 |
| Annual Premium | \$2,200 | \$2,200 | \$2,200 |
| If you decide to pay for care yourself: | | | |
| To have the same expense account at projected age | | | |
| (assuming this annual after-tax rate of return) | 6% | 6% | 6% |
| You would need to invest this lump sum today | \$199,959 | \$190,703 | \$181,876 |
| or invest this much each year until the projected age | \$14,757 | \$13,070 | \$11,835 |
| If you invest the premium annually until projected age | | | |
| You will invest this much | \$55,000 | \$66,000 | \$77,000 |
| Total value of this fund (if grows at above annual rate) | \$127,944 | \$184,364 | \$259,866 |
| Projected days of care covered by this fund*4 | 252 | 284 | 314 |
| Compared to days of care covered by insurance | 1825 | 1825 | 1825 |
| * Notes: See attached Explanation of Key Assumptions and Projections. This illustration is a sample of potential insurance value versus self-funding, and may not reflect the total actual expenses of your long-term care (LTC). It excludes any co-payments or self funded care not covered by the policy or investment fund illustrated. Upon request, your advisor will provide you reports projecting various scenarios of care cost greater than amounts illustrated above. | | | |
| Acknowledgement of Review | | | |
| I acknowledge that this report has been explained to me. I understand I can choose to; (1) create a LTC expense account paid for by an insurance company, or (2) pay for any long-term care myself, | | | |
| I (circle one) ELECT TO / ELECT NOT TO apply for long-term care coverage at this time. I (circle one) WOULD LIKE / WOULD NOT LIKE a follow-up no later than _____ fill in date, if applicable). | | | |
| Signed _____ Dated _____ | | | |

What is Long-Term Care Insurance?

- A risk management strategy that provides funding for extended health care delivered at home, in assisted living facilities, or in nursing homes
- Care can be defined as custodial or skilled
- Includes a healthcare advocacy component

LTC Insurance protects your retirement portfolio from the devastating effects of an extended healthcare event

It also protects your family from the burdens of either providing or attempting to manage your extended healthcare





LTC Insurance Plan Design

- **What's Important to you?**
- Carrier commitment to marketplace
- Benefit triggers (2 of 6 ADLs or a cognitive impairment)*
- Suitability (plan design)
- Pricing
- Rate stability

- **Key Components of LTC Insurance Plans:**
- Monthly benefit amount
- Benefit account value
- Deductible period
- Inflation protection

* An inability to perform a certain number of activities that are considered basic to normal living, activities are called Activities of Daily Living (ADLs). Six activities, each of which is generally considered central to leading a normal life, comprise the activities of daily living. These activities are usually shortened to ADLs, and include: eating, bathing, dressing, toileting, transferring and maintaining continence.

LTC Insurance Planning

Sample Insurability Questions (medical underwriting)

1. Have you had, do you currently have, have you ever been medically diagnosed as having or have you been treated for: **Circle all that apply**
- Stroke (CVA)
 - Multiple Transient Ischemic Attacks (TIAs)
 - TIA within 5 years
 - Alzheimer's Disease
 - Dementia
 - Mental Retardation
 - Schizophrenia
 - Amyotrophic Lateral Sclerosis (Lou Gehrig's Disease)
 - Muscular Dystrophy
 - Multiple Sclerosis
 - Parkinson's Disease
 - Diabetes with amputation or complications affecting the kidney
 - Cancer that has spread to another area of your body including nodes; or cancer diagnosed or treated in the past 2 years (except basal cell cancer, squamous cell cancer of the skin or early stage breast or prostate cancer).
 - Organ Transplant
2. Have you ever been treated for or medically diagnosed as having AIDS (Acquired Immune Deficiency Syndrome), ARC (AIDS Related Complex), any AIDS related condition(s)? **This does not include any prior HIV test results.**
3. Do you currently reside in, or have you been advised to enter, or are you planning to enter a nursing home, assisted living facility or residential care facility or are you currently receiving home health care services or attending Adult Day Care?
4. Do you require human help or supervision for any of the following?:
- bathing • dressing • eating • walking • toileting
 - transferring from bed or chair • controlling bowel or bladder
5. Do you currently use any of the following?:
- dialysis • oxygen • wheelchair • walker • quad cane • crutches

Medical Underwriting Process

- Application
- Phone interview (15-30 minutes)
- Medical records (ordered from primary physician; insurance company typically orders the last 3-5 years of records)
- Insurance companies reserve the right to order a face-to-face exam for applicants 70 or older

Planning Strategies

- Business owners (carve-outs)
- Conduct LTC “Risk Assessment”
- Create an extended healthcare plan

Tax Treatment of Long-Term Care Insurance Plans

HIGHLIGHTS

- Discriminatory benefit (liberal ERISA treatment)
- Tax deductible premium
- Zero imputed income to W2 employees
- Income tax-free benefit
- Full portability

2009 Eligible Long-Term Care Insurance Premium Deductions (age-based for certain business entities)

| Insured's Age | Amount Deductible |
|---------------|-------------------|
| 40 or under | \$320.00 |
| 41 through 50 | \$600.00 |
| 51 through 60 | \$1,190.00 |
| 61 through 70 | \$3,180.00 |
| 71 and above | \$3,980.00 |

¹ Current tax law generally allows deductibility of qualified long term care insurance premiums paid for policies covering an individual, his or her spouse, dependent (if not paid for outright or received in connection with employment).
² IRC Sec. 16261(b).
³ IRC Sec. 16261(b)(1)(B), Rev. Rul. 91-28, 1991-15 I.R.B. 23.
⁴ IRC Sec. 16261(b)(1)(B), Rev. Rul. 91-28, 1991-15 I.R.B. 23.
⁵ IRC Sec. 16261(b)(1)(B), Rev. Rul. 91-28, 1991-15 I.R.B. 23.
⁶ This applies if LLC is taxed as partnership.

| Type of Business | Circumstance | Deductibility |
|---|--|---|
| Sole Proprietor | Employer pays premiums for employees' policies. | Employer deducts 100% of premium expense. Premiums paid by employer not included in employee's taxable income. Benefits received from policy not included in recipient's taxable income. |
| | Sole proprietor pays premiums for own policy. | Deducts lesser of actual premiums paid and eligible long term care insurance premium (see chart on reverse). ² Benefits received from policy not included in recipient's taxable income. |
| Partnership | Employer pays premiums for employees' policies. | Employer deducts 100% of premium expense. Premiums paid by employer not included in employee's taxable income. Benefits received from policy not included in recipient's taxable income. |
| | Partnership pays premiums for partners' policies. | Premiums attributed to each partner included in their income. Partner deducts lesser of actual premiums paid and eligible long term care insurance premium (see chart on reverse). ³ Benefits received from policy not included in recipient's taxable income. |
| C Corporation (includes charities – 501(c)(3)) | Employer pays premiums for employees' policies. | Employer deducts 100% of premium expense. Premiums paid by employer not included in employee's taxable income. Benefits received from policy not included in recipient's taxable income. |
| S Corporation | Employer pays premiums for employees' policies (including 2% and less shareholders). | Employer deducts 100% of premium expense. Premiums paid by employer not included in employee's taxable income. Benefits received from policy not included in recipient's taxable income. |
| | S Corporation pays premiums for greater than 2% shareholders' policies. | Premiums attributed to each greater than 2% shareholder included in their income. Greater than 2% shareholder deducts lesser of actual premiums paid and eligible long term care insurance premium (see chart on reverse). ⁴ Benefits received from policy not included in recipient's taxable income. |
| Limited Liability Company⁶ | Employer pays premiums for employees' policies. | Employer deducts 100% of premium expense. Premiums paid by employer not included in employee's taxable income. Benefits received from policy not included in recipient's taxable income. |
| | LLC pays premiums for owner/members' policies. | Premiums attributed to each owner/member included in their income. Owner/member deducts lesser of actual premiums paid and eligible long term care insurance premium (see chart on reverse). ⁵ Benefits received from policy not included in recipient's taxable income. |

LTC Insurance Program

Sample Scenario (executive carve-out / business owner)

- 50 year-old executive
- Company funds and deducts LTC Insurance premium over 10 years*
- Premium to executive is not counted as imputed income
- Plan is fully portable
- Executive retires at age 65
- At age 80, executive has access to over \$2.1 million in tax-free benefits
- At age 85, executive has access to over \$2.7 million in tax-free benefits
- At age 90, executive has access to over \$3.5 million in tax-free benefits

- * *Premium can be paid over a 10 year, 15 year or ongoing basis*

Note: example based upon insurance plan with \$250/day benefit, 5-year benefit duration, and 5% compound inflation protection.

Next Steps & Contact Information

Next Steps:

1. Schedule a meeting / call to discuss objectives (fact-finding)
2. Discussion regarding plan design
3. Customize policy benefits
4. Complete application paperwork
5. Submit to Marsh
6. Underwriting process begins (phone interview conducted & medical records reviewed)
7. Policy delivery (premium due)



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Steven M. Cain, Senior Vice President and National Sales Leader of Private Client Life Insurance Services, has used his consultative approach to help build Marsh into one of the largest wholesale and retail distributors of long-term care insurance (LTCI) premium in the industry; with more than \$40 million of annualized premium in force. Under his direction, Marsh has sharpened its focus on the group, voluntary, and employee-funded marketplace — a focus that will tighten even further with Steve's team of the nation's foremost LTCI sales authorities.

While at a third-party administrator, Steve was part of a team that introduced several insurance carriers' products into the brokerage market. Transitioning from the home office to retail sales and then to the brokerage market, Steve has gained valuable insight on all aspects of the industry, from sales and marketing to underwriting, policy administration, and claims. He has been providing specialized insurance solutions to clients for more than 12 years.

Steve is a graduate from University of California at Santa Barbara and is a certified continuing education instructor. He regularly addresses industry groups such as state bar associations, the Society of Actuaries (SOA), the National Association of Health Underwriters (NAHU), and the National Association of Insurance and Financial Advisors (NAIFA). Before entering the insurance industry, Steve had a brief career in professional baseball, pitching in the farm systems of three professional teams.

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Private Client Life Insurance Services provides benefit through our deep understanding of the risks associated with our clients' lifestyle and our ability to provide a full range of insurance and risk advisory services to secure them. The challenges in preserving and transferring that wealth can be met with a consultative approach that may result in life insurance, annuity, and long-term care insurance solutions. Private Client Life Insurance Services' specialists provide expertise to optimize wealth preservation, tax efficient planning, fulfillment of intergenerational legacies, and provide consultation to help clients determine which wealth preservation strategies are right for them.



Long-Term Care Planning In A Recessionary Environment

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